

# **General Accounting Office Internal Controls Standards**

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# **General Accounting Office (GAO) Internal Controls Standards**

- ✓ **The GAO published new revised standards - November 1999**
- ✓ **Old GAO guidance had 11 standards.**
- ✓ **New GAO guidance has 5 standards.**



# **Federal Managers Financial Integrity Act of 1982**

- ✓ **Requires that GAO issue standards for internal controls in the Federal Government.**



# Terminology

- ✓ **“Internal Controls” is synonymous with the term “management controls”.**
- ✓ **The term management control is used in the Office of Management and Budget (OMB) Circular A-123, DoD Directive 5010.38 and AR 11-2.**



# **Other Federal Government Guidance**

- ✓ **OMB Circular A-123: Management Accountability and Control**
- ✓ **Government Performance and Results Act of 1993**
- ✓ **Chief Financial Officers Act of 1990**
- ✓ **Financial Management Improvement Act of 1996**



# Private Sector Guidance

- ✓ **Internal Control - Integrated Framework published by the committee of Sponsoring Organizations of the Treadway Commission (COSO)**



# **Definition of Management Controls**

- ✓ **Integral Component of an organization's management.**
- ✓ **Provides reasonable assurance that following objectives are being achieved:**
  - **Effectiveness and efficiency of operations.**
  - **Reliability of financial reporting.**
  - **Compliance with applicable laws and regulations.**



# **Fundamental Concepts of Internal Controls**

- ✓ **Continuous built-in component of operations.**
- ✓ **Effected by people.**
- ✓ **Provides reasonable assurance, not absolute assurance.**





# **Five General Accounting Office (GAO) Standards**

- ✓ **Control Environment**
- ✓ **Risk Assessment**
- ✓ **Control Activities**
- ✓ **Information and Communications**
- ✓ **Monitoring**



# **Control Environment**

- ✓ **Management/employees establish and maintain:**
  - **Positive Attitude.**
  - **Supportive Attitude.**
  - **Conscientious Management.**



# **Control Environment Factors**

- ✓ **Integrity and ethical values by management and staff.**
- ✓ **Management's commitment to competence.**
- ✓ **Management's philosophy and operating style.**
- ✓ **Agency's organizational style.**



# **Control Environment Factors (Continued)**

- ✓ **Manner of how agency delegates authority and responsibility.**
- ✓ **Good human capital policies and practices.**
- ✓ **Agency's relationship with Congress and oversight agencies.**



# **Risk Assessment**

- ✓ **Agency should assess risks:**
  - **Internal sources.**
  - **External sources.**



# Control Activities

- ✓ **Management control activities help ensure that management's directives are carried out.**
- ✓ **The control activities should be effective and efficient in accomplishing the agency's control objectives.**



# **Examples of Control Activities**

- ✓ **Top level reviews of actual performance.**
- ✓ **Reviews by management at functional or activity level.**
- ✓ **Management of human capital.**
- ✓ **Controls over information processing.**
- ✓ **Physical control over vulnerable assets .**



# **Examples of Control Activities (Continued)**

- ✓ **Establishing and reviewing of performance measures and indicators.**
- ✓ **Separation of duties.**
- ✓ **Proper execution of transactions and events.**
- ✓ **Accurate and timely recording of transactions and events.**





# **Examples of Control Activities (Continued)**

- ✓ **Access restrictions to and accountability for resources and records.**
- ✓ **Appropriate documentation of transactions and management controls.**



# **Control Activities Specific for Information Systems**

- ✓ **General Control**
- ✓ **Application Control**



# **Information Systems- General Control**

- ✓ **Applies to all information systems - mainframe, minicomputer, network and end-user environments.**
  - **Data center and client-server operations controls.**
  - **System software control.**
  - **Access security control.**
  - **Application system development and maintenance control.**



# **Information Systems Application Control**

- ✓ **Covers the processing of data within the application software.**
  - **Designed to help ensure completeness, accuracy, authorization and validity of all transactions during application processing.**



# **Information and Communications**

- ✓ **Record and communicate information to management and others within the organization who need it.**
- ✓ **Communicate information in a timely manner and in a form that enables management to carry out their management control and other responsibilities.**



# Monitoring

- ✓ **Assess Quality of performance over Time.**
- ✓ **Ensure that you promptly resolve the findings of audits and other reviews.**



# Prompt Resolution

- ✓ **Managers are to:**
  - **Promptly evaluate findings of audits and other reviews.**
  - **Determine proper actions in response to findings and recommendations from audits and reviews.**
  - **Complete within established time frames, all actions that correct or resolve matters brought to management's attention.**



# **Complete Resolution Process**

- ✓ **Process is finished when action is taken that:**
  - **Corrects identified deficiencies,**
  - **Produces improvements or**
  - **Demonstrates the findings and recommendations do not warrant management attention.**